

CHAPTER 1
basic concepts of
Strategic Management

STRATEGIC MANAGEMENT & BUSINESS POLICY
12TH EDITION

THOMAS L. WHEELLEN J. DAVID HUNGER

Session 1

1.1 The Study of Strategic Management

Strategic Management: a set of managerial decisions and actions that determines the long-run performance of a corporation.

Includes:

- Internal and external environment scanning
 - Strategy formulation
 - Strategy implementation
 - Evaluation and control
-

1.1 The Study of Strategic Management

Benefits of Strategic Management:

- Clearer sense of strategic vision for the firm
 - Sharper focus on what is strategically important
 - Improved understanding of a rapidly changing environment
-

1.1 The Study of Strategic Management

Additional Benefits of Strategic Management:

- Improved organizational performance
 - Achieves a match between the organization's environment and its strategy, structure and processes
 - Important in unstable environments
 - Strategic thinking
 - Organizational learning
-

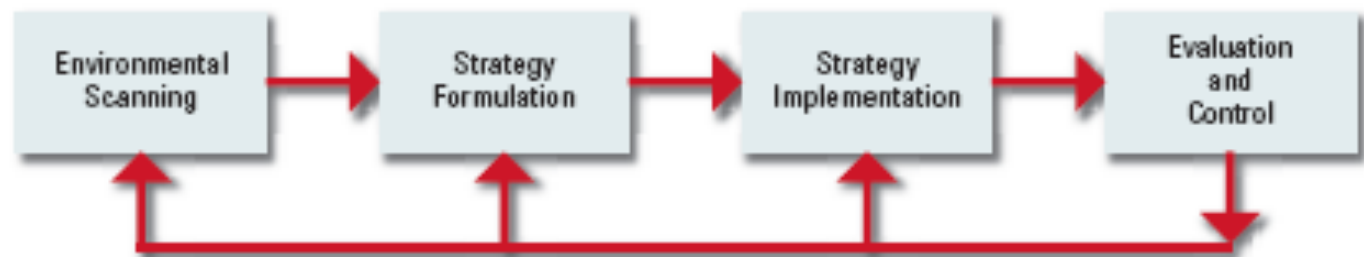
1.5 Basic Model of Strategic Management

Basic Elements of Strategic Management

1. Environmental scanning
 2. Strategy formulation
 3. Strategy implementation
 4. Evaluation and control
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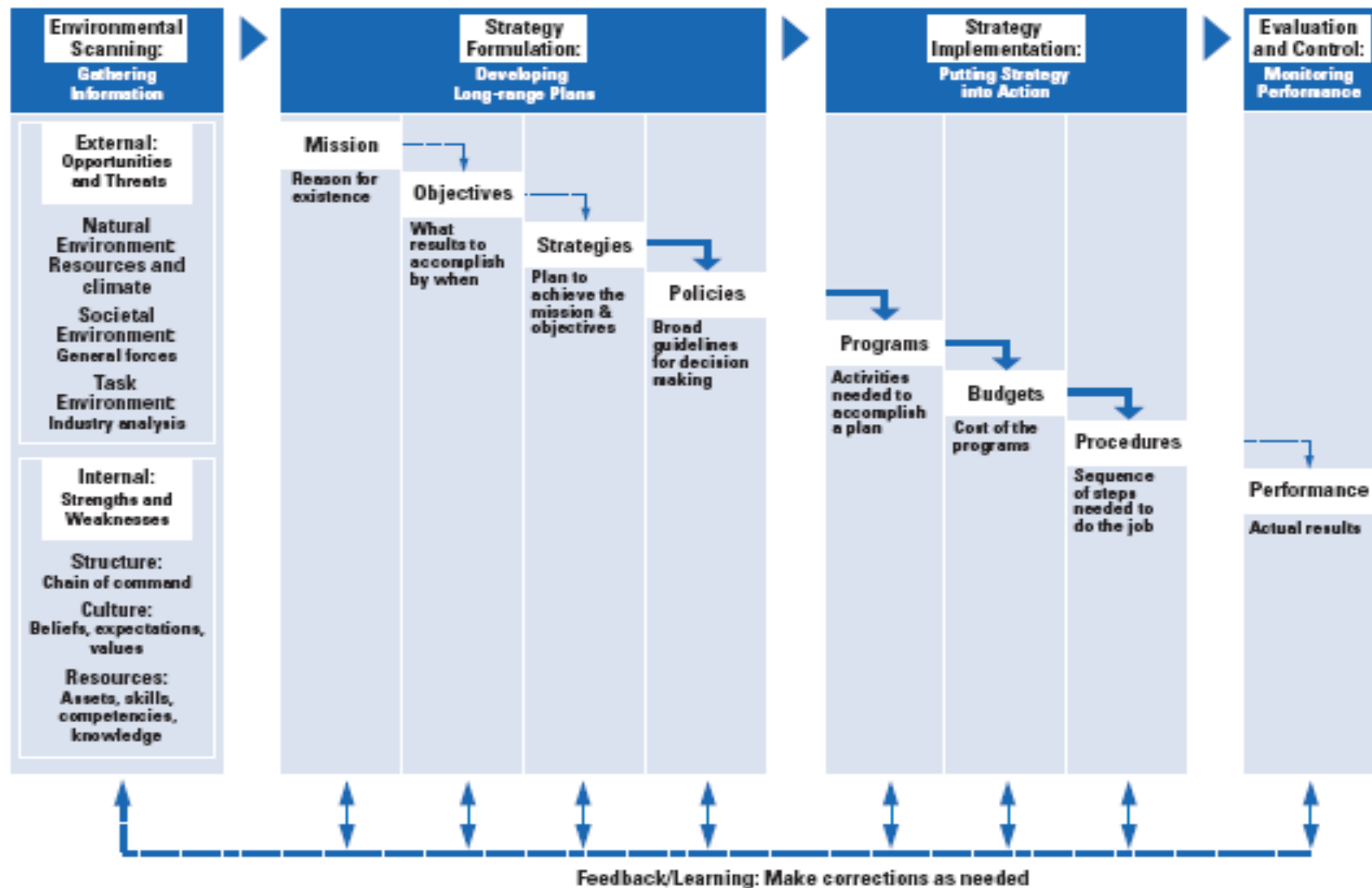
1.5 Basic Model of Strategic Management

FIGURE 1-1
Basic Elements of
the Strategic
Management
Process



1.5 Basic Model of Strategic Management

FIGURE 1-2 Strategic Management Model



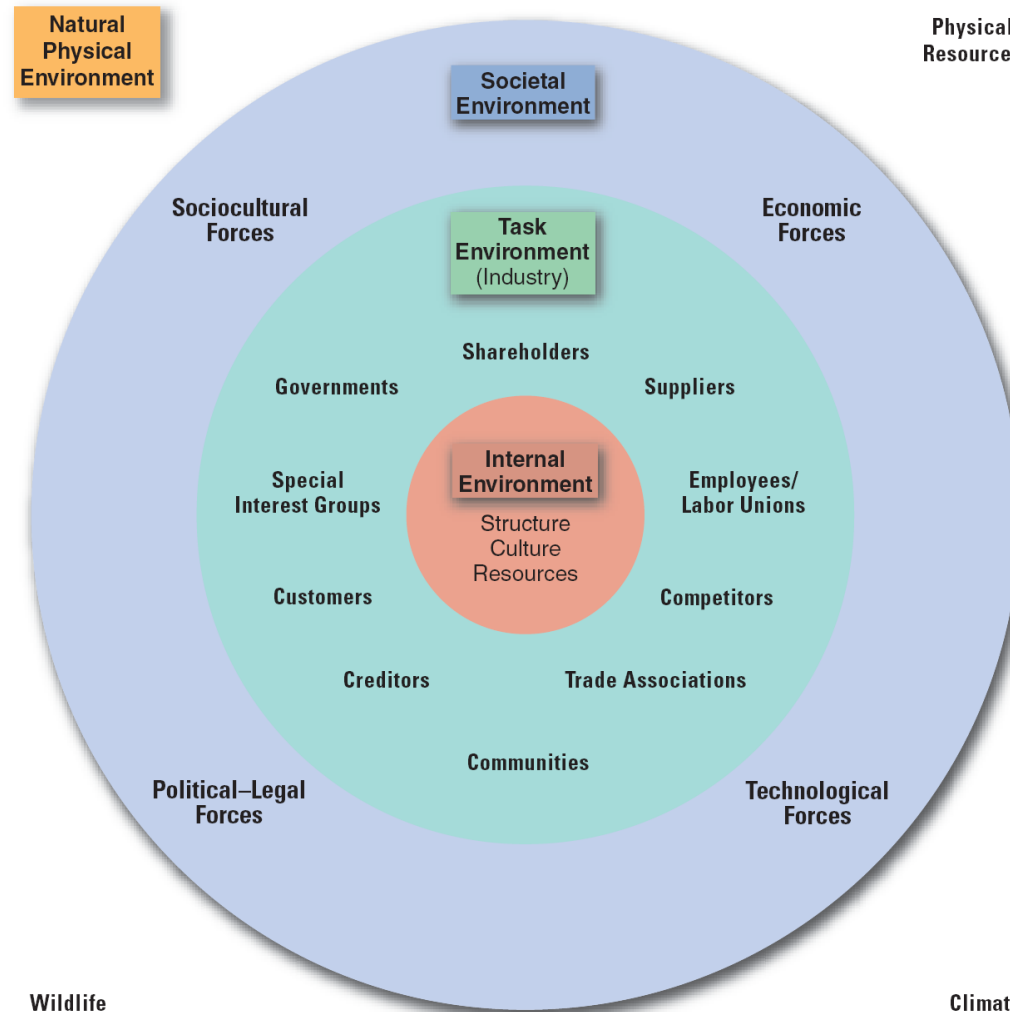
1.5 Basic Model of Strategic Management

Basic Elements of Strategic Management

Environmental Scanning is the monitoring, evaluating and disseminating of information from the external and internal environments to key people within the organization

1.5 Basic Model of Strategic Management

FIGURE 1-3 Environmental Variables



1.5 Basic Model of Strategic Management

Basic Elements of Strategic Management

Strategy Formulation: the development of long-range plans for the effective management of environmental opportunities and threats in light of organizational strengths and weaknesses (SWOT)

1.5 Basic Model of Strategic Management

Basic Elements of Strategic Management

Mission- the purpose or reason for the organization's existence

Vision- describes what the organization would like to become

Objectives- the end results of planned activity

1.5 Basic Model of Strategic Management

Basic Elements of Strategic Management

Strategies- form a comprehensive master plan that states how the corporation will achieve its mission and objectives

- Corporate
- Business
- Functional

Policies- the broad guidelines for decision making that links the formulation of a strategy with its implementation

1.5 Basic Model of Strategic Management

FIGURE 1-4
Hierarchy
of Strategy



1.5 Basic Model of Strategic Management

Basic Elements of Strategic Management

Strategy implementation: the process by which strategies and policies are put into action through the development of:

- Programs
 - Budgets
 - Procedures
-

1.5 Basic Model of Strategic Management

Basic Elements of Strategic Management

Evaluation and control: the process in which corporate activities and performance results are monitored so that actual performance can be compared to desired performance

1.5 Basic Model of Strategic Management

Basic Elements of Strategic Management

Performance: the end result of organizational activities

Feedback/Learning Process: revise or correct decisions based on performance

1.6 Initiation of Strategy: Triggering Events

Triggering event: something that acts as a stimulus for a change in strategy and can include:

- New CEO
 - External intervention
 - Threat of change of ownership
 - Performance gap
 - Strategic inflection point
-

1.7 Strategic Decision Making

What Makes a Strategic Decision?

Strategic decision making focuses on the long-run future of the organization

Characteristics of strategic decision making include:

- Rare
 - Consequential
 - Directive
-

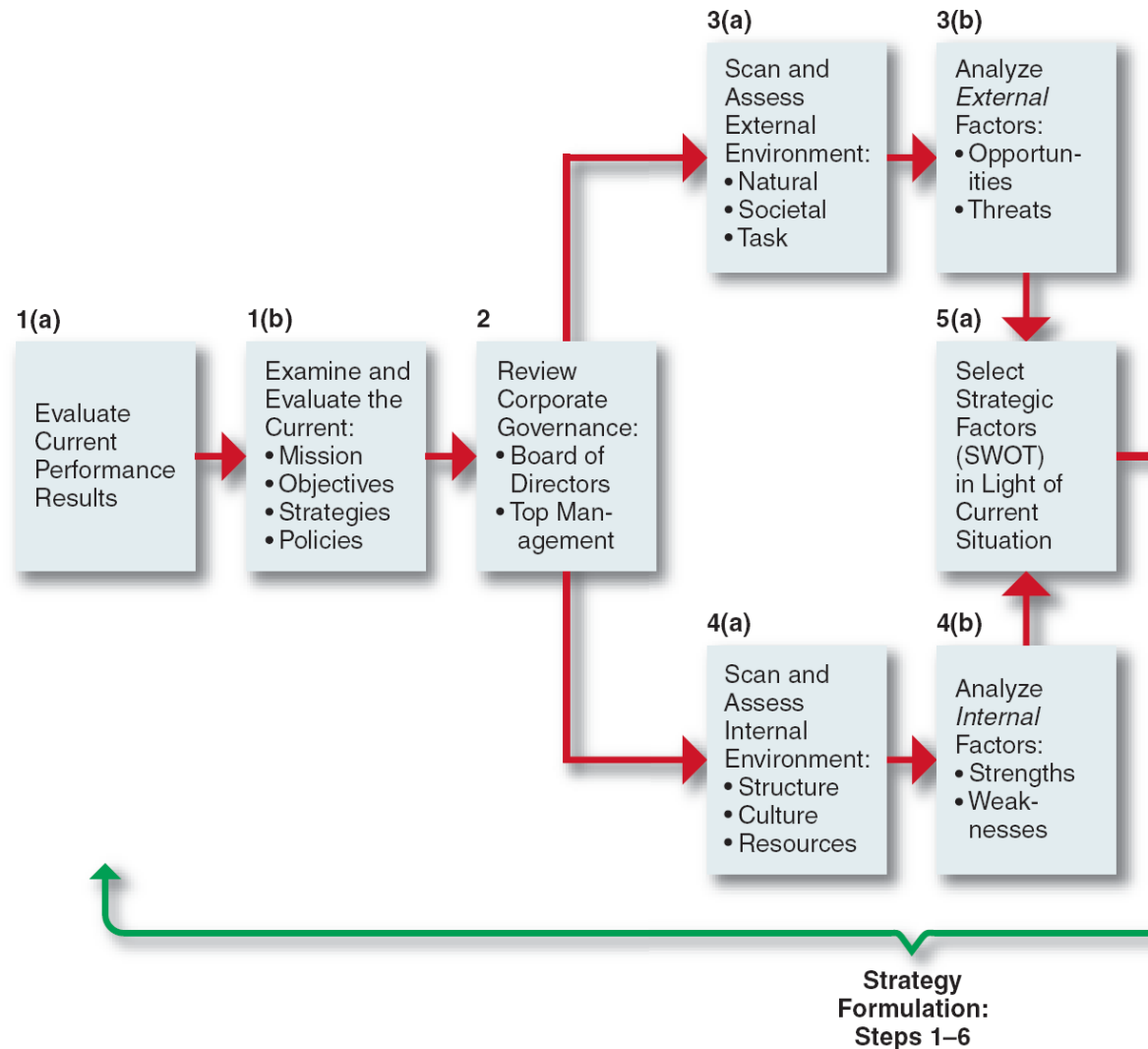
1.7 Strategic Decision Making

Strategic Decision Making Process:

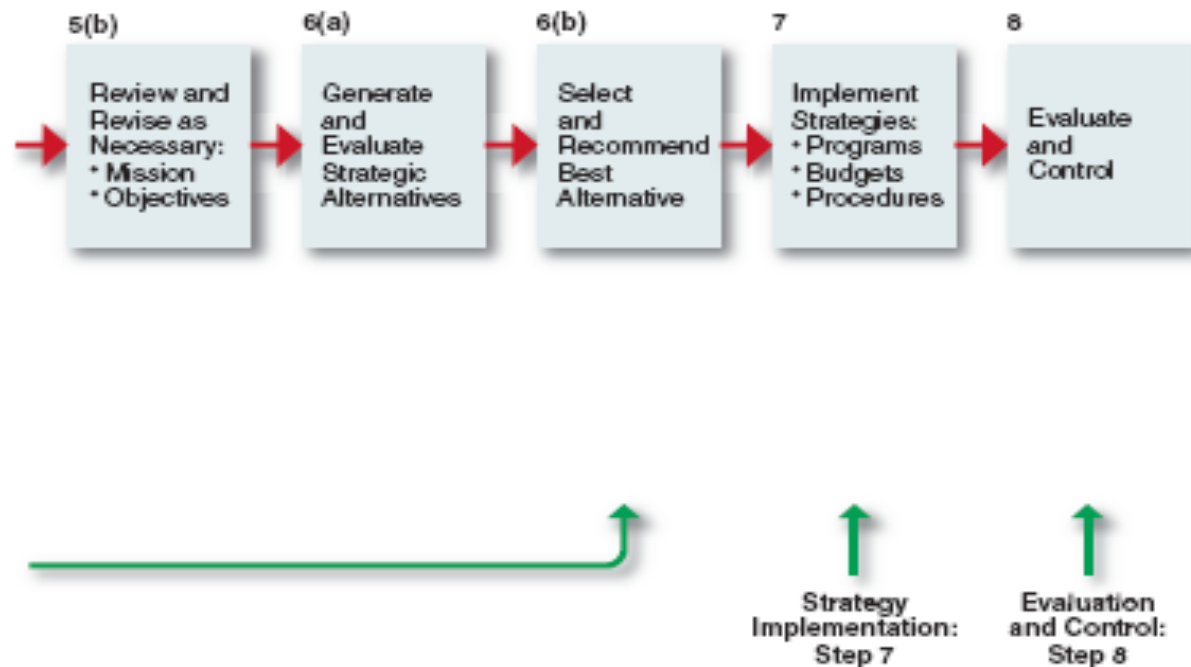
1. Evaluate current performance results
2. Review corporate governance
3. Scan and assess the external environment
4. Scan and assess the internal corporate environment
5. Analyze strategic (SWOT) factors
6. Generate, evaluate and select the best alternative strategy
7. Implement selected strategies
8. Evaluate implemented strategies

1.7 Strategic Decision Making

FIGURE 1-5
Strategic Decision-Making Process



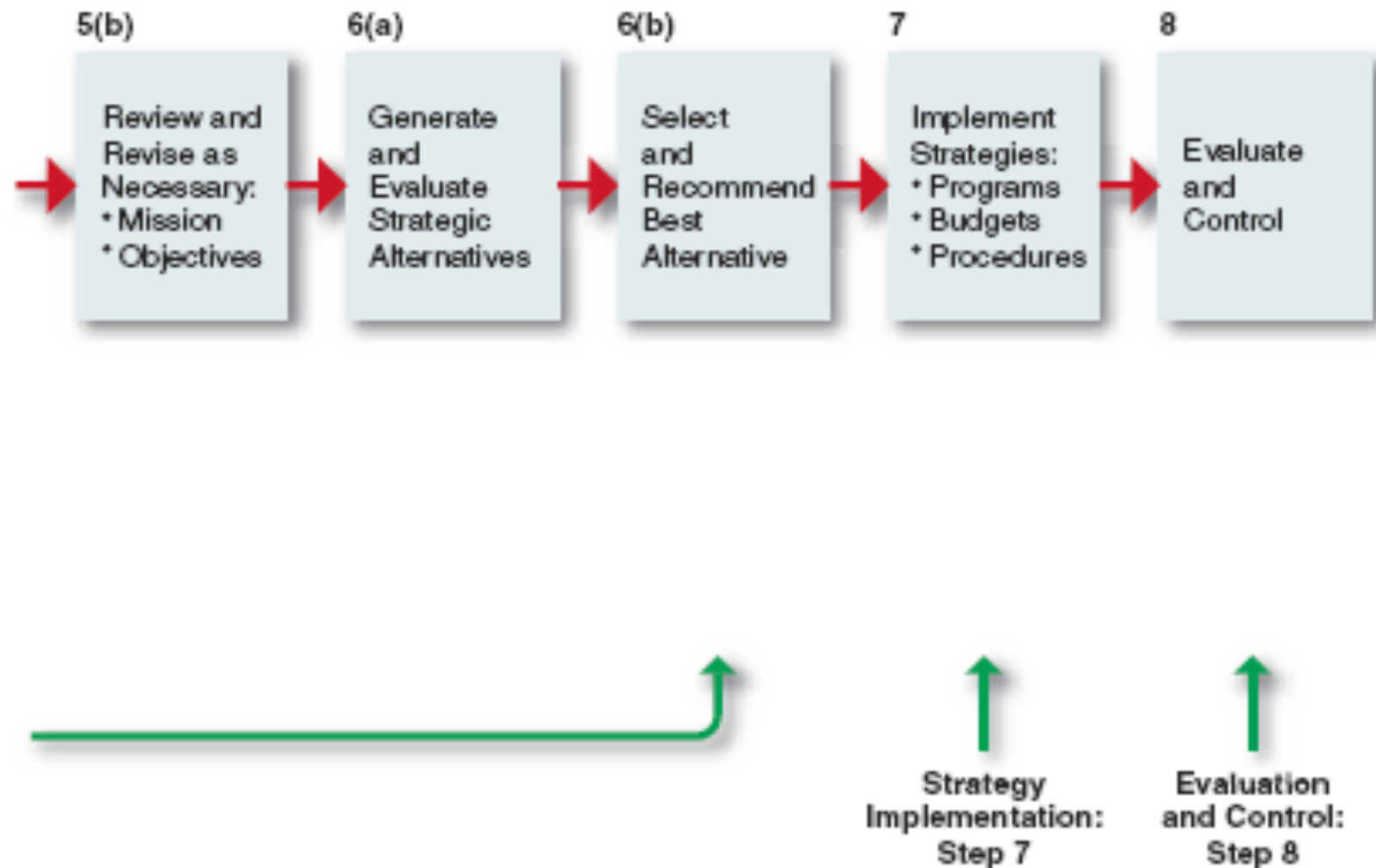
1.7 Strategic Decision Making



1.8 The Strategic Audit: Aid to Strategic Decision-Making

Strategic audit provides a checklist of questions, by area or issue, that enables a systematic analysis to be made of various corporate functions and activities

1.8 The Strategic Audit: Aid to Strategic Decision-Making



Session 2

CHAPTER 4

environmental scanning and Industry Analysis

STRATEGIC MANAGEMENT & BUSINESS POLICY
12TH EDITION

THOMAS L. WHEELLEN J. DAVID HUNGER

4.1 Environmental Scanning

Environmental scanning- the monitoring, evaluation and dissemination of information from the external and internal environments to key people within the corporation

4.1 Environmental Scanning

Identifying External Environmental Variables

- Natural environment
 - Societal environment
 - Task environment
-

4.1 Environmental Scanning

Identifying External Environmental Variables

Natural environment

- Physical resources
 - Wildlife
 - Climate
-

4.1 Environmental Scanning

Identifying External Environmental Variables

Societal environment- social systems that influence long-term decisions

- Economic forces
 - Technological forces
 - Political-legal forces
 - Sociocultural forces
-

4.1 Environmental Scanning

Identifying External Environmental Variables

Task environment- groups that directly affect a corporation and are affected by the corporation

- Government
 - Local communities
 - Suppliers
 - Competitors
 - Customers
 - Creditors
 - Unions
 - Special interest groups/trade associations
-

4.1 Environmental Scanning

Identifying External Environmental Variables

Industry analysis- an in-depth examination of key factors within a corporation's task environment

4.1 Environmental Scanning

Identifying External Environmental Variables

STEEP Analysis- monitoring trends in the societal and natural environments

- **S**ociocultural-
 - **T**echnological-
 - **E**conomic-
 - **E**cological-
 - **P**olitical-legal forces
-

4.1 Environmental Scanning

Trends in Economic Forces:

- Interest rates
 - Home sales
 - Oil prices
 - Emerging markets
 - BRIC countries
 - Eastern Europe
-

4.1 Environmental Scanning

TABLE 4-1 Some Important Variables in the Societal Environment

Economic	Technological	Political-Legal	Sociocultural
GDP trends	Total government spending for R&D	Antitrust regulations	Lifestyle changes
Interest rates	Total industry spending for R&D	Environmental protection laws	Career expectations
Money supply	Focus of technological efforts	Global warming legislation	Consumer activism
Inflation rates	Patent protection	Immigration laws	Rate of family formation
Unemployment levels	New products	Tax laws	Growth rate of population
Wage/price controls	New developments in technology transfer from lab to marketplace	Special incentives	Age distribution of population
Devaluation/revaluation	Productivity improvements through automation	Foreign trade regulations	Regional shifts in population
Energy alternatives	Internet availability	Attitudes toward foreign companies	Life expectancies
Energy availability and cost	Telecommunication infrastructure	Laws on hiring and promotion	Birthrates
Disposable and discretionary income	Computer hacking activity	Stability of government	Pension plans
Currency markets		Outsourcing regulation	Health care
Global financial system		Foreign "sweat shops"	Level of education
			Living wage
			Unionization

4.1 Environmental Scanning

Trends in Technological Forces:

- Portable information devices and electronic networking
 - Alternative energy sources
 - Precision farming
 - Virtual personal assistants
 - Genetically altered organisms
 - Smart, mobile robots
-

4.1 Environmental Scanning

Trends in Political-Legal Forces:

- Enforcement of U.S. antitrust laws
- Taxation and labor laws
- Government bureaucracy
- World Trade Organization

4.1 Environmental Scanning

Trends in Sociocultural Forces:

- Demographics
 - Increasing environmental awareness
 - Growing health consciousness
 - Expanding seniors market
 - Impact of Gen Y
 - Declining mass market
 - Changing pace and location of life
 - Changing household composition
 - Increasing diversity of workforce and markets
-

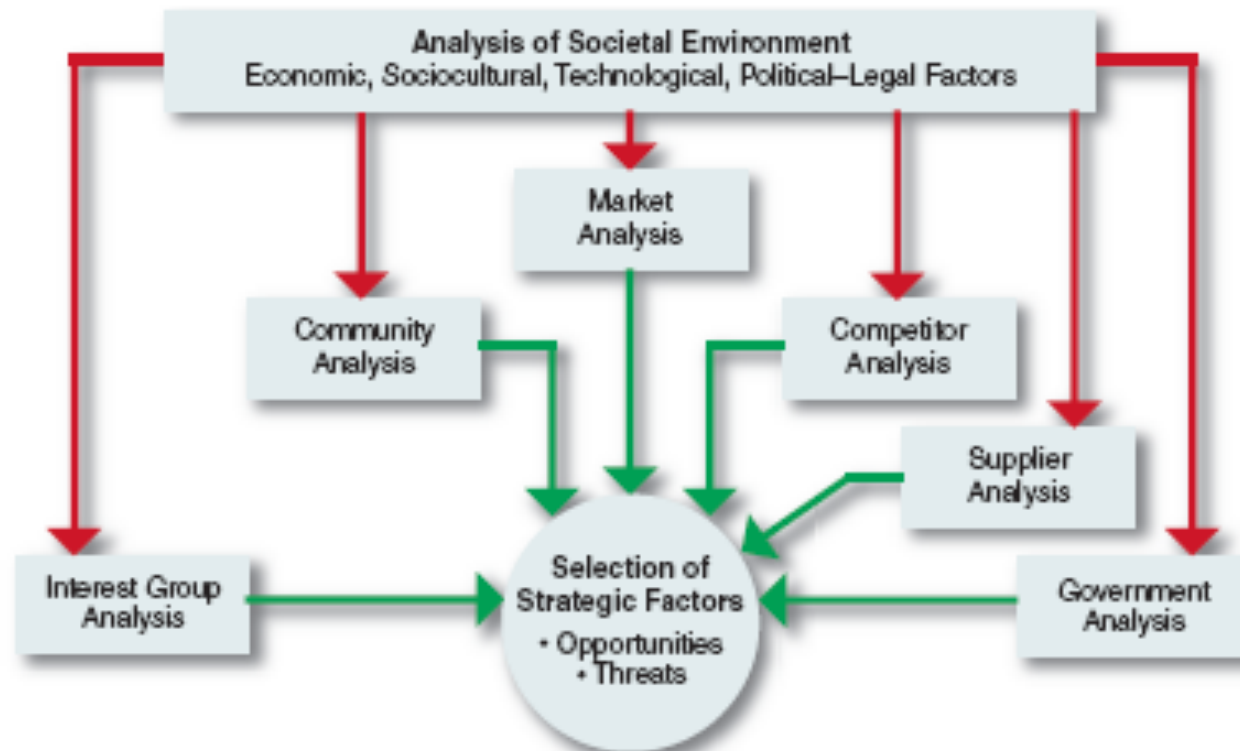
4.1 Environmental Scanning

TABLE 4-3 Some Important Variables in *International Societal Environments*

Economic	Technological	Political–Legal	Sociocultural
Economic development	Regulations on technology transfer	Form of government	Customs, norms, values
Per capita income	Energy availability/cost	Political ideology	Language
Climate	Natural resource availability	Tax laws	Demographics
GDP trends	Transportation network	Stability of government	Life expectancies
Monetary and fiscal policies	Skill level of workforce	Government attitude toward foreign companies	Social institutions
Unemployment levels	Patent-trademark protection	Regulations on foreign ownership of assets	Status symbols
Currency convertibility	Internet availability	Strength of opposition groups	Lifestyle
Wage levels	Telecommunication infrastructure	Trade regulations	Religious beliefs
Nature of competition	Computer hacking technology	Protectionist sentiment	Attitudes toward foreigners
Membership in regional economic associations, e.g., EU, NAFTA, ASEAN	New energy sources	Foreign policies	Literacy level
Membership in World Trade Organization (WTO)		Terrorist activity	Human rights
Outsourcing capability		Legal system	Environmentalism
Global financial system		Global warming laws	“Sweat shops”
		Immigration laws	Pension plans
			Health care
			Slavery

4.1 Environmental Scanning

FIGURE 4-1
Scanning External Environment



4.1 Environmental Scanning

Identifying External Strategic Factors:

Issues priority matrix- used to identify and analyze developments in the external environment

External strategic factors- key environmental trends that are judged to have both a medium to high probability of occurrence and a medium to high probability of impact on the corporation

4.1 Environmental Scanning

FIGURE 4-2
Issues Priority
Matrix

		Probable Impact on Corporation		
		High	Medium	Low
Probability of Occurrence	High	High Priority	High Priority	Medium Priority
	Medium	High Priority	Medium Priority	Low Priority
	Low	Medium Priority	Low Priority	Low Priority

SOURCE: Reprinted from Long-Range Planning, Vol. 17, No. 3, 1984, Campbell, "Foresight Activities in the U.S.A.: Time for a Re-Assessment?" pp. 46. Copyright © 1984 with permission from Elsevier.

4.2 Industry Analysis: Analyzing the Task Environment

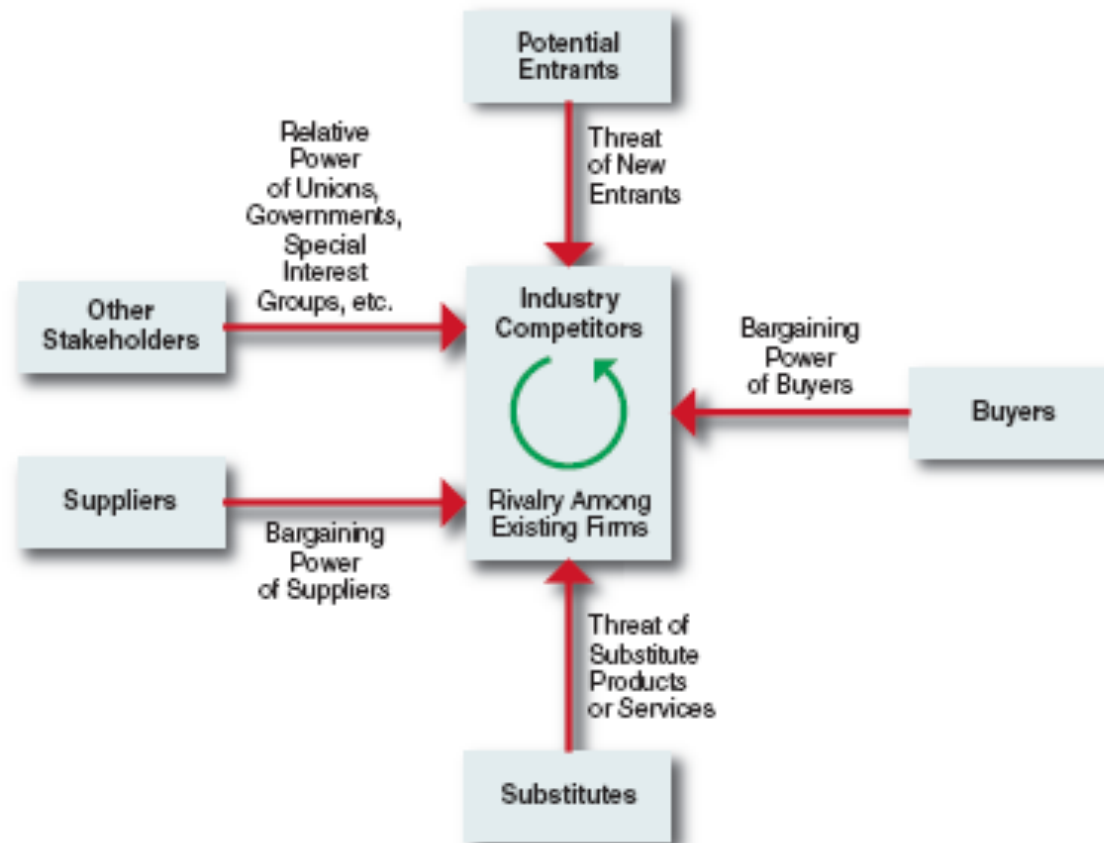
Industry- a group of firms that produces a similar product or service

Porter's 5 forces:

- Threat of new entrants
- Rivalry among existing firms
- Threat of substitute products
- Bargaining power of buyers
- Bargaining power of suppliers
- Relative power of other stakeholders (added)

4.2 Industry Analysis: Analyzing the Task Environment

FIGURE 4-3
Forces Driving
Industry
Competition



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4.2 Industry Analysis: Analyzing the Task Environment

Threat of new entrants- new entrants to an industry bring new capacity, a desire to gain market share and substantial resources

4.2 Industry Analysis: Analyzing the Task Environment

Entry barrier- an obstruction that makes it difficult for a company to enter an industry

- Economies of scale
 - Product differentiation
 - Capital requirements
 - Switching costs
 - Access to distribution channels
 - Cost disadvantages due to size
 - Government policies
-

4.2 Industry Analysis: Analyzing the Task Environment

Rivalry Among Existing Firms- new entrants to an industry bring new capacity, a desire to gain market share and substantial resources

- Number of competitors
 - Rate of industry growth
 - Product or service characteristics
 - Amount of fixed costs
 - Capacity
 - Height of exit barriers
 - Diversity of rivals
-

4.2 Industry Analysis: Analyzing the Task Environment

Threat of Substitute Products or Services-
products that appear different but can satisfy the same need as another product

4.2 Industry Analysis: Analyzing the Task Environment

Bargaining Power of Buyers- ability of buyers to force prices down, bargain for higher quality, play competitors against each other

- Large purchases
 - Backward integration
 - Alternative suppliers
 - Low cost to change suppliers
 - Product represents a high percentage of buyer's cost
 - Buyer earns low profits
 - Product is unimportant to buyer
-

4.2 Industry Analysis: Analyzing the Task Environment

Bargaining Power of Suppliers- ability of suppliers to raise prices or reduce quality

- Industry is dominated by a few companies
 - Unique product or service
 - Substitutes are not readily available
 - Ability to forward integrate
 - Unimportance of product or service to the industry
-

4.2 Industry Analysis: Analyzing the Task Environment

Relative Power of Other Stakeholders

- Government
- Local communities
- Creditors
- Trade associations
- Special interest groups
- Unions
- Shareholders
- Complementors- products that work well with a firm's product

4.2 Industry Analysis: Analyzing the Task Environment

Industry Evolution

- Fragmented industry- no firm has a large market share and each firm only serves a small piece of the total market in competition with other firms
 - Consolidated industry- domination by a few large firms, each struggles to differentiate products from its competition
-

CHAPTER 5

internal scanning:

Organizational Analysis

STRATEGIC MANAGEMENT & BUSINESS POLICY
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5.1 A Resource-Based Approach to Organizational Analysis

Organizational analysis- concerned with identifying and developing an organization's resources and competencies

5.1 A Resource-Based Approach to Organizational Analysis

Core and Distinctive Competencies

Resources- an organization's assets

- Tangible
- Intangible

Capabilities- a corporation's ability to exploit its resources

5.1 A Resource-Based Approach to Organizational Analysis

Core and Distinctive Competencies

Competency- a cross-functional integration and coordination of capabilities

Core competency- a collection of competencies that cross divisional boundaries, is wide-spread throughout the corporation and is something the corporation does exceedingly well

Distinctive competency- core competencies that are superior to those of the competition

5.1 A Resource-Based Approach to Organizational Analysis

Core and Distinctive Competencies

VRIO framework (Barney)

- Value
 - Rare
 - Imitability
 - Organization
-

5.1 A Resource-Based Approach to Organizational Analysis

Using Resources to Gain Competitive Advantage

1. Identify and classify resources in terms of strengths and weaknesses
 2. Combine the firm's strengths into specific capabilities and core competencies
 3. Appraise profit potential- Are there any distinctive competencies?
 4. Select the strategy that best exploits the firm's capabilities and competencies relative to external opportunities
 5. Identify resource gaps and invest in upgrading weaknesses
-

5.1 A Resource-Based Approach to Organizational Analysis

Access to a Distinctive Competency

1. Asset endowment
 2. Acquired from someone else
 3. Shared with another business
 4. Built and accumulated within the company
-

5.1 A Resource-Based Approach to Organizational Analysis

Access to a Distinctive Competency

Clusters- geographic concentrations of interconnected companies and industries

Access to:

- Employees
- Suppliers
- Information
- Complementary products

5.1 A Resource-Based Approach to Organizational Analysis

Imitability an Advantage

Durability- the rate at which a firm's underlying resources, capabilities, or core competencies depreciate or become obsolete

Imitability- the rate at which a firm's underlying resources, capabilities, or core competencies can be duplicated by others

5.1 A Resource-Based Approach to Organizational Analysis

Determining the Sustainability of an Advantage

Transparency- the speed at which other firms under the relationship of resources and capabilities support a successful strategy

Transferability- the ability of competitors to gather the resources and capabilities necessary to support a competitive challenge

Replicability- the ability of competitors to use duplicated resources and capabilities to imitate the other firm's success

5.1 A Resource-Based Approach to Organizational Analysis

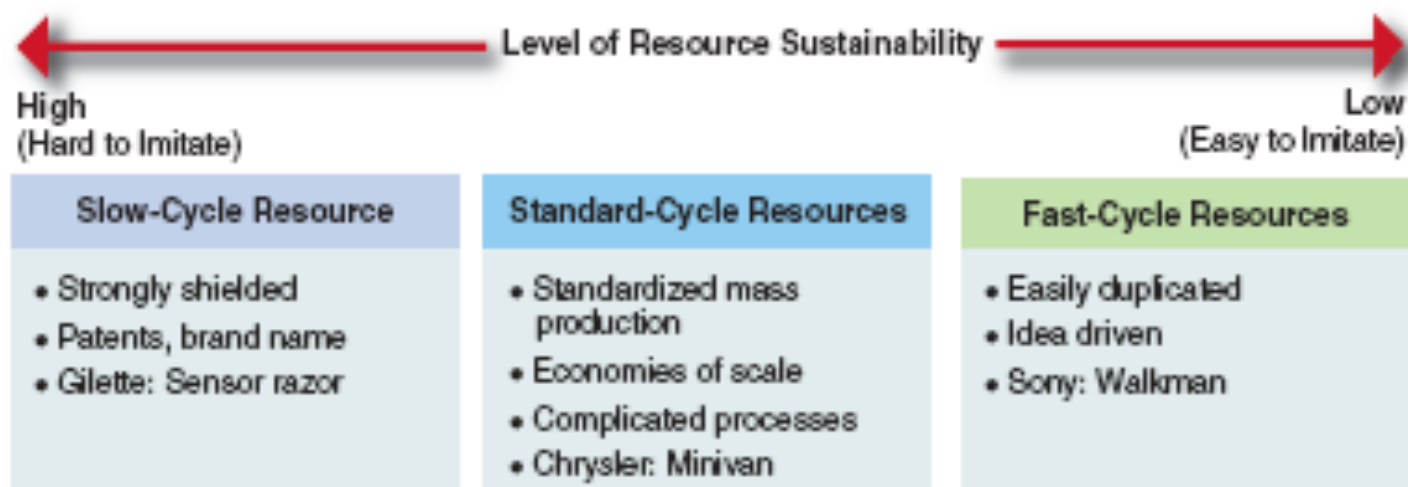
Determining the Sustainability of an Advantage

Explicit knowledge- knowledge that can be easily articulated and communicated

Tacit knowledge- knowledge that is not easily communicated because it is deeply rooted in employee experience or in the company's culture

5.1 A Resource-Based Approach to Organizational Analysis

FIGURE 5-1
Continuum of
Resource
Sustainability



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5.2 Business Models

Business models- a company's method for making money in the current business environment

Includes

- Who the company serves
 - What the company provides
 - How the company makes money
 - How the company differentiates and sustains competitive advantage
 - How the company provides its product/service
-

5.2 Business Models

Business models

- Customer solutions model
- Profit pyramid model
- Multi-component system/installed model
- Advertising model
- Switchboard model

5.2 Business Models

Business models (cont' d)

- Efficiency model
 - Blockbuster model
 - Profit multiplier model
 - Entrepreneurial model
 - De Facto industry standard model
-

5.3 Value-Chain Analysis

Value chain- a linked set of value creating activities that begin with basic raw materials coming from suppliers, moving on to a series of value-added activities involved in producing and marketing a product or service, and ending with distributors getting the final goods into the hands of the ultimate consumer

FIGURE 5-2
Typical Value
Chain for a
Manufactured
Product



5.3 Value-Chain Analysis

Industry Value Chain Analysis

Value chain segments include:

- Upstream
- Downstream

Center of gravity- the part of the chain that is most important to the company and the point where its core competencies lie

- Vertical integration

Corporate Value Chain Analysis

Primary activities

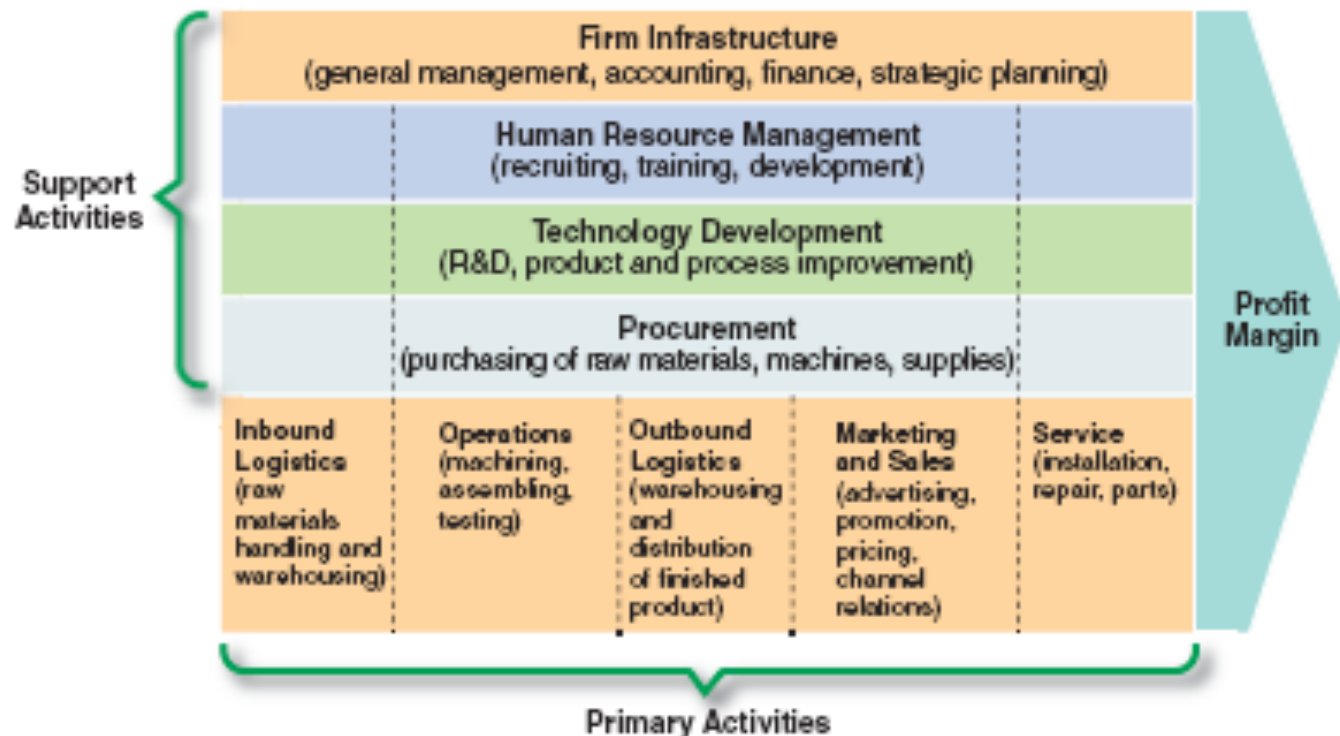
- Inbound logistics
- Operations
- Outbound logistics

Support activities

- Procurement
- Technology development
- Human resource management
- Firm infrastructure

5.3 Value-Chain Analysis

FIGURE 5-3
A Corporation's Value Chain



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5.3 Value-Chain Analysis

Corporate Value Chain Analysis

1. Examine each product line's value chain in terms of the various activities involved in producing the product or service
 2. Examine the linkages within each product line's value chain
 3. Examine the potential synergies among the value chains of different product lines or business units
-

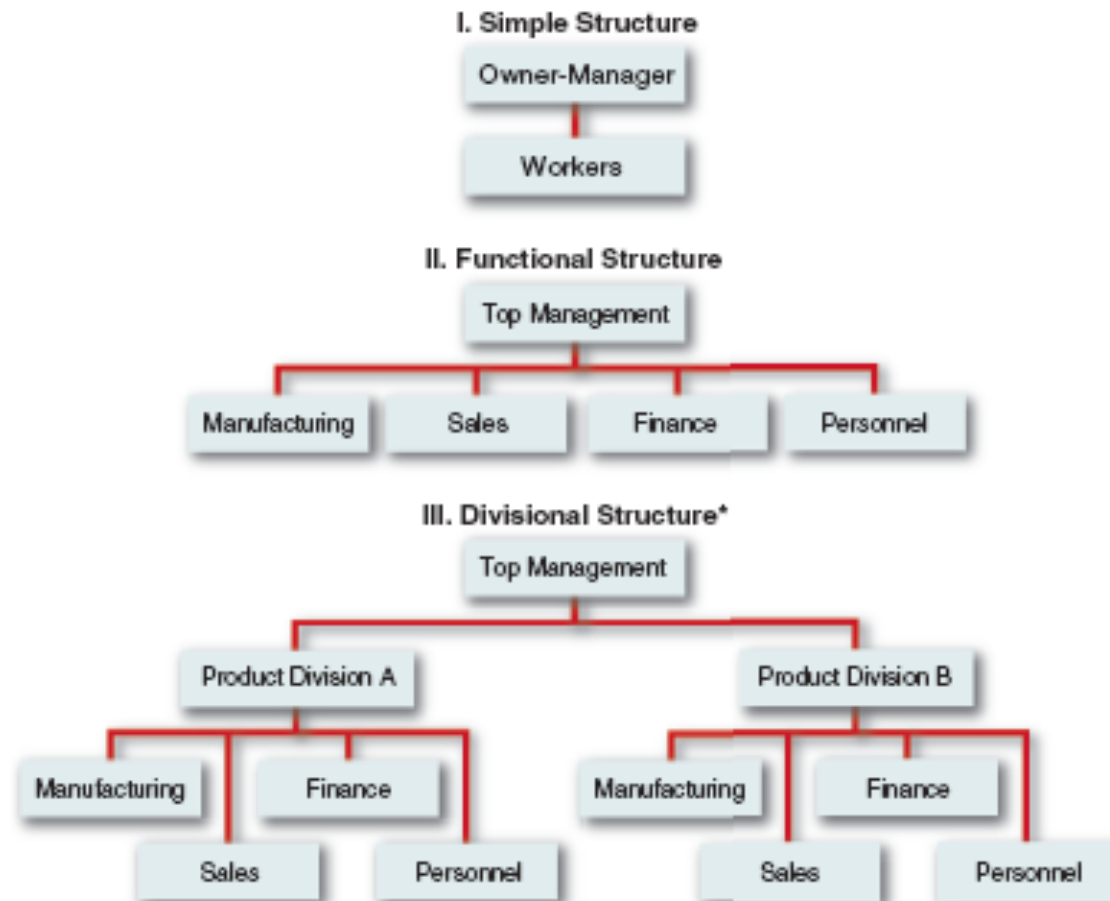
5.4 Scanning Functional Resources and Capabilities

Basic Organizational Structures

- Simple
- Functional
- Divisional
- Strategic Business Units
- Conglomerate

5.4 Scanning Functional Resources and Capabilities

FIGURE 5-4
Basic
Organizational
Structures



*Strategic Business Units and the conglomerate structure are variants of the divisional structure.

5.4 Scanning Functional Resources and Capabilities

Corporate Culture: The Company Way

Corporate culture- the collection of beliefs, expectations and values learned and shared by a corporation's members and transmitted from one generation of employees to another.

5.4 Scanning Functional Resources and Capabilities

Functions of Corporate Culture

- Conveys a sense of identity for employees
- Generates employee commitment
- Adds to the stability of the organization as a social system
- Serves as a frame of reference for employees to understand organizational activities and as a guide for behavior

5.4 Scanning Functional Resources and Capabilities

Strategic Marketing Issues

Market position- Who are our customers?

Marketing Mix- the particular combination of key variables under a corporation's control that can be used to affect demand and to gain competitive advantage

5.4 Scanning Functional Resources and Capabilities

TABLE 5-1	Product	Place	Promotion	Price
Marketing Mix Variables	Quality Features Options Style Brand name Packaging Sizes Services Warranties Returns	Channels Coverage Locations Inventory Transport	Advertising Personal selling Sales promotion Publicity	List price Discounts Allowances Payment periods Credit items

SOURCE: KOTLER, PHILIP, MARKETING MANAGEMENT, 11th edition © 2003, p. 16. Reprinted by Pearson Education, Inc., Upper Saddle River, NJ.

5.4 Scanning Functional Resources and Capabilities

Product life cycle- product monetary sales over time from introduction through growth and maturity to decline

FIGURE 5-5
Product Life Cycle



* The right end of the Growth stage is often called *Competitive Turbulence* because of price and distribution competition that shakes out the weaker competitors. For further information, see C. R. Wasson, *Dynamic Competitive Strategy and Product Life Cycles*, 3rd ed. (Austin, TX: Austin Press, 1978).

5.4 Scanning Functional Resources and Capabilities

Brand- a name given to a company's product which identifies that item in the mind of the consumer

Corporate brand- a type of brand in which the company's name serves as the brand

5.4 Scanning Functional Resources and Capabilities

Corporate reputation- a widely held perception of a company by the general public

- Stakeholders' perceptions of quality
- Corporation's prominence in the minds of stakeholders

5.4 Scanning Functional Resources and Capabilities

Strategic Financial Issues

Financial leverage- ratio of total debt to total assets

- Used to describe how debt is used to increase earnings available to common shareholders

Capital budgeting- the analyzing and ranking of possible investments in fixed assets in terms of additional outlays and receipts that will result from each investment

- Hurdle point
-

5.4 Scanning Functional Resources and Capabilities

Strategic Research and Development Issues

R & D intensity- pending no R & D as a percentage of sales revenue

Technology competence- the development and use of innovative technology

Technology transfer- the process of taking new technology from the laboratory to the marketplace

5.4 Scanning Functional Resources and Capabilities

Strategic Research and Development Issues

R & D Mix- the mix of:

Basic R & D- focuses on theoretical problems

Product R & D- concentrates on marketing and is concerned with product or product packaging improvements

Engineering R & D is concerned with engineering, concentrating on quality control, and the development of design specifications and improved production equipment

5.4 Scanning Functional Resources and Capabilities

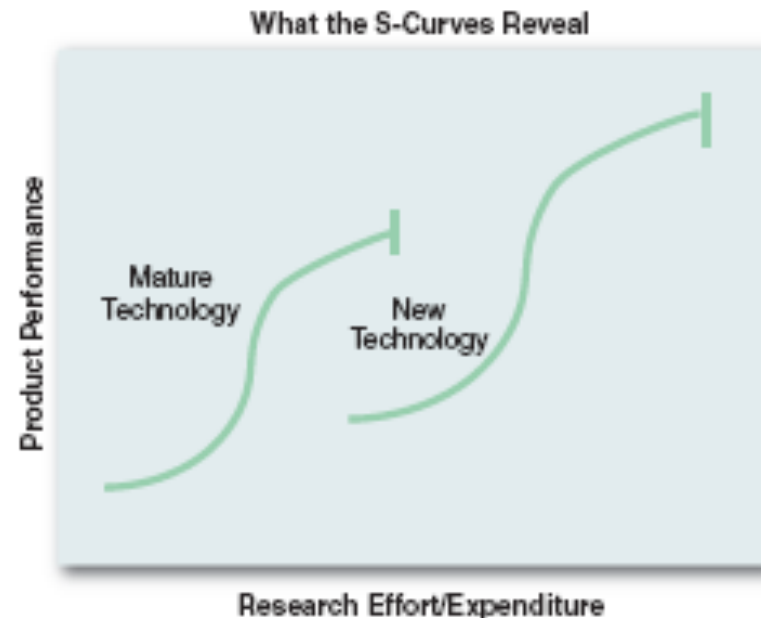
Strategic Research and Development Issues

Technology discontinuity- when a new technology cannot be used to enhance current technology, but substitutes for the technology to yield better performance

- Moore's Law

5.4 Scanning Functional Resources and Capabilities

FIGURE 5-6
Technological
Discontinuity



In the corporate planning process, it is generally assumed that incremental progress in technology will occur. But past developments in a given technology cannot be extrapolated into the future because every technology has its limits. The key to competitiveness is to determine when to shift resources to a technology that has more potential.

.....
SOURCE: From "Are You Investing in the Wrong Technology?" P. Pascarella, *Industry Week*, July 25, 1983.
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5.4 Scanning Functional Resources and Capabilities

Strategic Operations Issues

Intermittent Systems- item is normally processed sequentially, but the work and sequence of the process vary

Continuous systems- work is laid out in lines on which products can be continuously assembled or processed

Operating leverage- impact of a specific change in sales volume on net operation income

5.4 Scanning Functional Resources and Capabilities

Strategic Operations Issues

Experience curve- unit production costs decline by some fixed percentage each time the total accumulated volume of production units doubles

5.4 Scanning Functional Resources and Capabilities

Strategic Operations Issues

Flexible Manufacturing for Mass Customization

- Computer Assisted Design
 - Computer Assisted Manufacturing
 - Economies of Scale
-

5.4 Scanning Functional Resources and Capabilities

Strategic Human Resource Issues

Teams

Autonomous (self-managed)- a group of people working together without a supervisor to plan, coordinate and evaluate their work

Cross-functional work teams- various disciplines are involved in a project from the beginning

Concurrent engineering- specialists work side-by-side and compare notes constantly to design cost-effective products with features customers want

5.4 Scanning Functional Resources and Capabilities

Strategic Human Resource Issues

Virtual Teams- groups of geographically or organizationally dispersed coworkers that are assembled using a combination of telecommunications and information technologies to accomplish organizational tasks- driven by 5 trends

5.4 Scanning Functional Resources and Capabilities

Strategic Human Resource Issues

- Flatter organizational structures
 - Turbulent environments
 - Increased employee autonomy
 - Higher knowledge requirements
 - Increased globalization
 - Increased employee decision making
-

5.4 Scanning Functional Resources and Capabilities

Strategic Information Systems/Technology Issues

Information systems/technology contributions to performance:

- Automation of back office processes
 - Automation of individual tasks
 - Enhancement of key business functions
 - Development of a competitive advantage
-

5.4 Scanning Functional Resources and Capabilities

Strategic Information Systems/Technology Issues

Current trends in Information systems/technology
Internet include:

- Intranet
- Extranet
- Web 2.0

5.4 Scanning Functional Resources and Capabilities

Strategic Information Systems/Technology Issues

Supply chain management- networks for sourcing raw materials, manufacturing products or creating services, storing, and distributing goods, and delivering them to customers and consumers

5.6 Synthesis of Internal Factors

TABLE 5-2 Internal Factor Analysis Summary (IFAS Table): Maytag as Example

Internal Factors	Weight	Rating	Weighted Score	Comments
1	2	3	4	5
Strengths				
■ Quality Maytag culture	.15	5.0	.75	Quality key to success
■ Experienced top management	.05	4.2	.21	Know appliances
■ Vertical integration	.10	3.9	.39	Dedicated factories
■ Employer relations	.05	3.0	.15	Good, but deteriorating
■ Hoover's international orientation	.15	2.8	.42	Hoover name in cleaners
Weaknesses				
■ Process-oriented R&D	.05	2.2	.11	Slow on new products
■ Distribution channels	.05	2.0	.10	Superstores replacing small dealers
■ Financial position	.15	2.0	.30	High debt load
■ Global positioning	.20	2.1	.42	Hoover weak outside the United Kingdom and Australia
■ Manufacturing facilities	.05	4.0	.20	Investing now
Total Scores	<u>1.00</u>		<u>3.05</u>	

CHAPTER 6

strategy formulation: situation analysis and Business Strategy

STRATEGIC MANAGEMENT & BUSINESS POLICY
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6.1 Situational Analysis: SWOT Analysis

Strategy formulation- concerns developing a corporation's mission, objectives, strategies and policies

Situation Analysis- the process of finding a strategic fit between external opportunities and internal strengths while working around external and internal weaknesses

6.1 Situational Analysis: SWOT Analysis

SWOT- **S**trengths-**W**eaknesses-**O**pportunities-**T**hreats

Strategy= opportunity/capacity

Opportunity has no real value unless a company has the capacity to take advantage of that opportunity

6.1 Situational Analysis: SWOT Analysis

Criticisms of SWOT analysis

- Generates lengthy lists
- Uses no weights to reflect priorities
- Uses ambiguous words and phrases
- Same factor can be in 2 categories
- No obligation to verify opinion with data or analysis
- Requires only a single level of analysis
- No logical link to strategy implementation

6.1 Situational Analysis: SWOT Analysis

Generating a Strategic Factors Analysis Summary (SFAS) Matrix

SFAS summarizes an organization's strategic factors by combining the external factors from the EFAS Table with the internal factors from the IFAS Table

6.2 Review of Mission and Objectives

Review of Mission and Objectives

A re-examination of an organization's current mission and objectives must be made before alternative strategies can be generated and evaluated

Performance problems can derive from inappropriate (narrow or too broad) mission statements and objectives

6.3 Generating Alternative Strategies by Using a TOWS Matrix

TOWS Matrix- illustrates how the external opportunities and threats can be matched with internal strengths and weaknesses to result in 4 possible strategic alternatives

- Provides a means to brainstorm alternative strategies
 - Forces managers to create various kinds of growth and retrenchment strategies
 - Used to generate corporate as well as business strategies
-

6.3 Generating Alternative Strategies by Using a TOWS Matrix

FIGURE 6-3
TOWS Matrix

EXTERNAL FACTORS (EFAS)	INTERNAL FACTORS (IFAS)	Strengths (S) List 5 – 10 <i>internal</i> strengths here	Weaknesses (W) List 5 – 10 <i>internal</i> weaknesses here
Opportunities (O) List 5 – 10 <i>external</i> opportunities here		SO Strategies Generate strategies here that use strengths to take advantage of opportunities	WO Strategies Generate strategies here that take advantage of opportunities by overcoming weaknesses
Threats (T) List 5 – 10 <i>external</i> threats here		ST Strategies Generate strategies here that use strengths to avoid threats	WT Strategies Generate strategies here that minimize weaknesses and avoid threats

.....
SOURCE: Reprinted from Long-Range Planning, Vol. 15, No. 2, 1982, Wehrich "The TOWS Matrix—A Tool For Situational Analysis," p. 60. Copyright © 1982 with permission of Elsevier and H. Wehrich.

6.4 Business Strategies

Business strategy focuses on improving the competitive position of a company's or business unit's products or services within the specific industry or market segment it serves

6.4 Business Strategies

Business strategy is comprised of:

- Competitive strategy
- Cooperative strategy

6.4 Business Strategies

Porter's competitive strategies

Lower cost strategy- the ability of a company or a business unit to design, produce and market a comparable product more efficiently than its competitors

Differentiation strategy- the ability of a company or a business unit to provide a unique or superior value to the buyer in terms of product quality, special features, or after sale service

Porter's competitive strategies

Cost leadership- a lower-cost competitive strategy that aims at the broad mass market and requires efficient scale facilities, cost reductions, cost and overhead control; avoids marginal customers, cost minimization in R&D, service, sales force and advertising

- Provides a defense against competitors
 - Provides a barrier to entry
 - Generates increased market share
-

6.4 Business Strategies

Porter's competitive strategies

Differentiation- involves the creation of a product or service that is perceived throughout the industry as unique. Can be associated with design, brand image, technology, features, dealer network, or customer service

- Lowers customers sensitivity to price
 - Increases buyer loyalty
 - Barrier to entry
 - Can generate higher profits
-

6.4 Business Strategies

Porter's competitive strategies

Cost Focus- low-cost competitive strategy that focuses on a particular buyer group or geographic market and attempts to serve only this niche to the exclusion of others

Differentiation Focus- concentrates on a particular buyer group, product line segment, or geographic market to serve the needs of a narrow strategic market more effectively than its competitors

6.4 Business Strategies

FIGURE 6-5
Porter's Generic
Competitive
Strategies

		Competitive Advantage	
		Lower Cost	Differentiation
Competitive Scope	Broad Target	Cost Leadership	Differentiation
	Narrow Target	Cost Focus	Differentiation Focus

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6.4 Business Strategies

Risks in Competitive Strategies

TABLE 6-1 Risks of Generic Competitive Strategies

Risks of Cost Leadership	Risks of Differentiation	Risks of Focus
Cost leadership is not sustained: <ul style="list-style-type: none">■ Competitors imitate.■ Technology changes.■ Other bases for cost leadership erode. Proximity in differentiation is lost.	Differentiation is not sustained: <ul style="list-style-type: none">■ Competitors imitate.■ Bases for differentiation become less important to buyers. Cost proximity is lost.	The focus strategy is imitated. The target segment becomes structurally unattractive: <ul style="list-style-type: none">■ Structure erodes.■ Demand disappears. Broadly targeted competitors overwhelm the segment: <ul style="list-style-type: none">■ The segment's differences from other segments narrow.■ The advantages of a broad line increase. New focusers subsegment the industry.
Cost focusers achieve even lower cost in segments.	Differentiation focusers achieve even greater differentiation in segments.	

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6.4 Business Strategies

TABLE 6-2

The Eight
Dimensions
of Quality

1. Performance	Primary operating characteristics, such as a washing machine's cleaning ability.
2. Features	"Bells and whistles," such as cruise control in a car, that supplement the basic functions.
3. Reliability	Probability that the product will continue functioning without any significant maintenance.
4. Conformance	Degree to which a product meets standards. When a customer buys a product out of the warehouse, it should perform identically to that viewed on the showroom floor.
5. Durability	Number of years of service a consumer can expect from a product before it significantly deteriorates. Differs from reliability in that a product can be durable but still need a lot of maintenance.
6. Serviceability	Product's ease of repair.
7. Aesthetics	How a product looks, feels, sounds, tastes, or smells.
8. Perceived Quality	Product's overall reputation. Especially important if there are no objective, easily used measures of quality.

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6.4 Business Strategies

TABLE 6-3 Requirements for Generic Competitive Strategies

Generic Strategy	Commonly Required Skills and Resources	Common Organizational Requirements
Overall Cost Leadership	<ul style="list-style-type: none"> ■ Sustained capital investment and access to capital ■ Process engineering skills ■ Intense supervision of labor ■ Products designed for ease of manufacture ■ Low-cost distribution system 	<ul style="list-style-type: none"> ■ Tight cost control ■ Frequent, detailed control reports ■ Structured organization and responsibilities ■ Incentives based on meeting strict quantitative targets
Differentiation	<ul style="list-style-type: none"> ■ Strong marketing abilities ■ Product engineering ■ Creative flair ■ Strong capability in basic research ■ Corporate reputation for quality or technological leadership ■ Long tradition in the industry or unique combination of skills drawn from other businesses ■ Strong cooperation from channels 	<ul style="list-style-type: none"> ■ Strong coordination among functions in R&D, product development, and marketing ■ Subjective measurement and incentives instead of quantitative measures ■ Amenities to attract highly skilled labor, scientists, or creative people
Focus	<ul style="list-style-type: none"> ■ Combination of the above policies directed at the particular strategic target 	<ul style="list-style-type: none"> ■ Combination of the above policies directed at the particular strategic target

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6.4 Business Strategies

Cooperative Strategies- used to gain a competitive advantage within an industry by working with other firms

6.4 Business Strategies

Collusion- the active cooperation of firms within an industry to reduce output and raise prices to avoid economic law of supply and demand

6.4 Business Strategies

Strategic Alliances- a long-term cooperative arrangement between two or more independent firms or business units that engage in business activities for mutual economic gain

Used to:

- Obtain or learn new capabilities
 - Obtain access to specific markets
 - Reduce financial risk
 - Reduce political risk
-

6.4 Business Strategies

Types of Cooperative Agreements

- Mutual Service Consortia
- Joint Venture
- Licensing Arrangements
- Value-Chain Partnerships

Session 3



CHAPTER 7

strategy formulation: corporate Strategy

STRATEGIC MANAGEMENT & BUSINESS POLICY
12TH EDITION

THOMAS L. WHEELLEN J. DAVID HUNGER

7.1 Corporate Strategy

Corporate strategy- the choice of direction of the firm as a whole and the management of its business or product portfolio and concerns:

- Directional strategy
 - Portfolio analysis
 - Parenting strategy
-

7.2 Directional Strategy

Directional strategy- the firm's overall orientation toward growth, stability, or retrenchment

7.2 Directional Strategy

Portfolio analysis- industries or markets in which the firm competes through its products and business unites

7.2 Directional Strategy

Parenting strategy- the manner in which management coordinates activities and transfers resources and cultivates capabilities among product lines and business units

7.2 Directional Strategy

FIGURE 7-1
Corporate
Directional
Strategies

+ GROWTH	+ STABILITY	+ RETRENCHMENT
Concentration Vertical Growth Horizontal Growth Diversification Concentric Conglomerate	Pause/Proceed with Caution No Change Profit	Turnaround Captive Company Sell-Out/Divestment Bankruptcy/Liquidation

7.2 Directional Strategy

Growth Strategy: Concentration and Diversification

- Merger- a transaction involving two or more corporations in which stock is exchanged but in which only one corporation survives
 - Acquisition- the purchase of a company that is completely absorbed by the subsidiary or division of the acquiring corporation
-

7.2 Directional Strategy

Growth Strategy

Concentration

- Vertical
- Horizontal

Diversification

- Concentric
 - Conglomerate
-

Concentration strategies

Vertical growth- taking over the function previously provided by a supplier or by a distributor

- Vertical integration- the degree to which a firm operates vertically in multiple locations on an industry's value chain from extracting raw materials to manufacturing to retailing
 - Backward integration- assuming a function previously provided by a supplier
 - Forward integration- assuming a function previously provided by a distributor
-

Concentration strategies

Transaction cost economies- vertical integration is more efficient than contracting for goods and services in the marketplace when the transaction costs of buying on the open market become too great

7.2 Directional Strategy

- Full integration- a firm internally makes 100% of its key suppliers and completely controls its distributors
- Taper integration- a firm internally produces less than half of its own requirements and buys the rest from outside suppliers

7.2 Directional Strategy

- Quasi-integration- a company does not make any of its key supplies but purchases most of its requirements from outside suppliers that are under its partial control
- Long-term contracts- agreements between 2 firms to provide agreed-upon goods and services to each other for a specific period of time

7.2 Directional Strategy

FIGURE 7-2
Vertical
Integration
Continuum



.....
SOURCE: Suggested by K. R. Harrigan, *Strategies for Vertical Integration* (Lexington, Mass.: Lexington Books, D.C. Heath, 1983), pp. 16–21.

7.2 Directional Strategy

Horizontal growth- expansion of operations into other geographic locations and/or increasing the range of products and services offered to current markets

- Horizontal growth is achieved through:
 - Internal development
 - Acquisitions
 - Strategic alliances

Horizontal integration- the degree to which a firm operates in multiple geographic locations at the same point on an industry's value chain

7.2 Directional Strategy

International Entry Options for Horizontal Growth

- Exporting
- Licensing
- Franchising
- Joint Venture
- Acquisitions
- Green-Field Development
- Production Sharing
- Turn-key Operations
- BOT Concept
- Management Contracts

Diversification Strategies

Concentric (Related) Diversification- growth into a related industry when a firm has a strong competitive position but attractiveness is low

7.2 Directional Strategy

Diversification Strategies

Synergy- when two businesses will generate more profits together than they could separately

7.2 Directional Strategy

Diversification Strategies

Conglomerate (Unrelated) Diversification- growth into an unrelated industry

- Management realizes that the current industry is unattractive
 - Firm lacks outstanding abilities or skills that it could easily transfer to related products or services in other industries
-

7.2 Directional Strategy

Controversies in Directional Strategies

- Is vertical growth better than horizontal growth?
 - Is concentration better than diversification?
 - Is concentric diversification better than conglomerate diversification?
-

7.2 Directional Strategy

Stability Strategies- continuing activities without any significant change in direction

- Pause/Proceed with caution strategy- an opportunity to rest before continuing a growth or retrenchment strategy
 - No change strategy- continuance of current operations and policies
 - Profit Strategies- to do nothing new in a worsening situation but instead to act as though the company's problems are only temporary
-

7.2 Directional Strategy

Retrenchment Strategies- used when the firm has a weak competitive position in some or all of its product lines from poor performance

7.2 Directional Strategy

Retrenchment Strategies

Turnaround strategy- emphasizes the improvement of operational efficiency when the corporation's problems are pervasive but not critical

- Contraction- effort to quickly “stop the bleeding” across the board but in size and costs
- Consolidation- stabilization of the new leaner corporation

7.2 Directional Strategy

Captive Company Strategy- company gives up independence in exchange for security

Sell-out strategy- management can still obtain a good price for its shareholders and the employees can keep their jobs by selling the company to another firm

Divestment- sale of a division with low growth potential

7.2 Directional Strategy

Bankruptcy- company gives up management of the firm to the courts in return for some settlement of the corporation's obligations

Liquidation- management terminates the firm

7.3 Portfolio Analysis

Portfolio analysis- management views its product lines and business units as a series of investments from which it expects a profitable return

Popular portfolio analysis techniques include:

- BCG Matrix
- GE Business Screen

7.3 Portfolio Analysis

BCG Matrix

Question marks- new products with the potential for success but require a lot of cash for development

Stars- market leaders at the peak of their product cycle and are able to generate enough cash to maintain their high market share and usually contribute to the company's profits

7.3 Portfolio Analysis

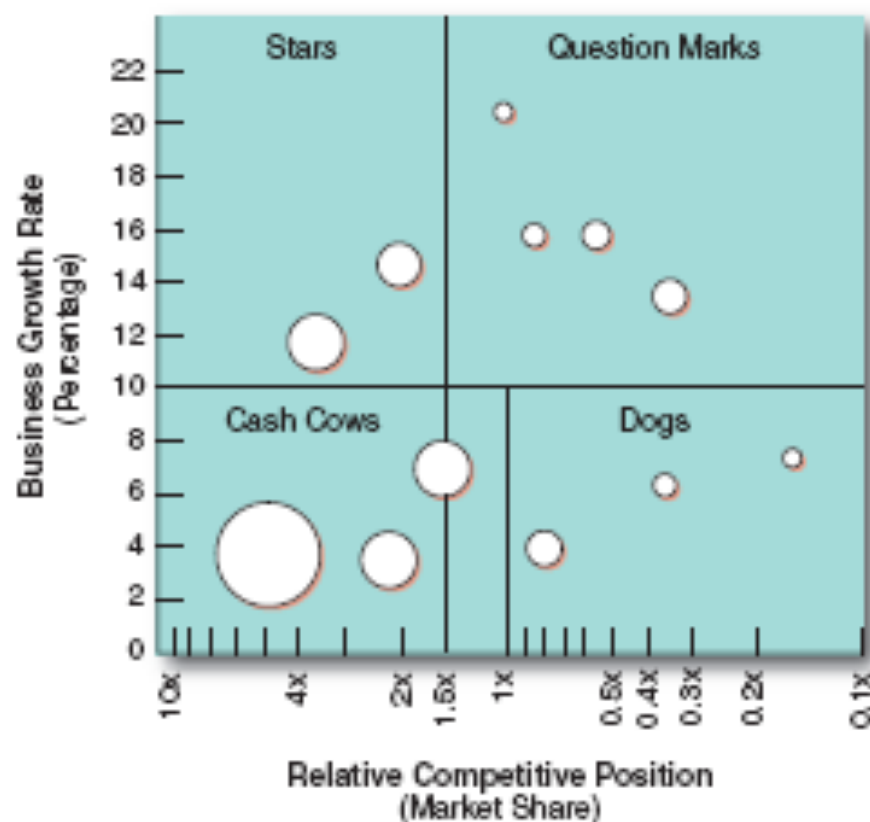
BCG Matrix

Cash cows- products that bring in far more money than is needed to maintain their market share

Dogs- products with low market share and do not have the potential to bring in much cash

7.3 Portfolio Analysis

FIGURE 7-3
BCG Growth-Share Matrix



SOURCE: Reprinted from Long Range Planning, Vol. 10, No. 2, 1977, Hedley, "Strategy and the Business Portfolio," p. 12. Copyright © 1977 with permission from Elsevier.

BCG Matrix- Limitations

- Use of highs and lows to form categories is too simplistic
- Link between market share and profitability is questionable
- Growth rate is only one aspect of industry attractiveness
- Product lines or business units are considered only in relation to one competitor
- Market share is only one aspect of overall competitive position

7.3 Portfolio Analysis

Advantages and Limitations of Portfolio Analysis

Advantages:

- Encourages top management to evaluate each of the corporation's businesses individually and to set objectives and allocate resources for each
 - Stimulates the use of externally oriented data to supplement management's judgment
 - Raises the issue of cash flow availability to use in expansion and growth
-

7.3 Portfolio Analysis

Advantages and Limitations of Portfolio Analysis

Limitations:

- Defining product/market segments is difficult
- Suggest the use of standard strategies that can miss opportunities or be impractical
- Provides an illusion of scientific rigor when in reality positions are based on objective judgments
- Value-laden terms such as cash cow and dog can lead to self-fulfilling prophecies
- Lack of clarity on what makes an industry attractive or where a product is in its life cycle

7.3 Portfolio Analysis

Managing a Strategic Alliance Portfolio

1. Developing and implementing a portfolio strategy for each business unit and a corporate policy for managing all the alliances of the entire company
 2. Monitoring the alliance portfolio in terms of implementing business units' strategies and corporate strategy and policies
 3. Coordinating the portfolio to obtain synergies and avoid conflicts among alliances
 4. Establishing an alliance management system to support other tasks of multi-alliance management
-

7.4 Corporate Parenting

Corporate parenting- views a corporation in terms of resources and capabilities that can be used to build business unit value as well as generate synergies across business units

- Generates corporate strategy by focusing on the core competencies of the parent corporation and the value created from the relationship between the parent and its businesses
-

CHAPTER 8

strategy formulation: functional strategy and Strategic Choice

STRATEGIC MANAGEMENT & BUSINESS POLICY
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8.1 Functional Strategy

Functional strategy- the approach a functional area takes to achieve corporate and business unit objectives and strategies by maximizing resource productivity

8.1 Functional Strategy

Marketing strategy deals with pricing, selling and distributing a product

8.1 Functional Strategy

Market development strategy- provides the ability to:

- Capture a larger market share
 - Market saturation
 - Market penetration
- Develop new uses and/or markets for current products

8.1 Functional Strategy

Product development strategy- provides the ability to:

- Develop new products for existing markets
- Develop new products for new markets

8.1 Functional Strategy

- Line extension- using a successful brand name to market other products
 - Push strategy- promotions to gain or hold shelf space in retail outlets
 - Pull strategy- advertising to “pull” products through the distribution channels
-

8.1 Functional Strategy

- Skim pricing- offers the opportunity to “skim the cream” from the top of the demand curve with a high price while the product is novel and competitors are few
 - Penetration pricing- attempts to hasten market development and offers the pioneer the opportunity to use the experience curve to gain market share with low price and then dominate the industry
-

8.1 Functional Strategy

Financial Strategy- examines the financial implications of corporate and business-level strategic options and identifies the best financial course of action

Financial strategy includes the management of:

- Dividends
 - Stock price
 - Sales of company patents
-

8.1 Functional Strategy

Leveraged buyout- company is acquired in a transaction financed largely by debt usually obtained from a third party

Reverse stock split- investor's shares are split in half for the same total amount of money

8.1 Functional Strategy

Research and Development Strategy- deals with product and process innovation and improvement

- Technological leader- pioneers innovation
 - Technological follower- imitates the products of competitors
 - Open innovation- use of alliances and connections with corporate, government, academic labs and consumers to develop new products and processes
-

8.1 Functional Strategy

TABLE 8-1		Technological Leadership	Technological Followership
Research and Development Strategy and Competitive Advantage	Cost Advantage	Pioneer the lowest-cost production design. Be the first down the learning curve. Create low cost ways of performing value activities.	Lower the cost of the product or value activities by learning from the leader's experience. Avoid R & D costs through imitation.
	Differentiation	Pioneer a unique product that increases buyer value. Innovate in other activities to increase buyer value.	Adapt the product or delivery system more closely to buyer needs by learning from the leader's experience.

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8.1 Functional Strategy

Operations Strategy- determines how and where a product or service is to be manufactured, the level of vertical integration in the production process, the deployment of physical resources and relationships with suppliers

Manufacturing Types include

- Job shops
 - Connected line batch flow
 - Flexible manufacturing systems
 - Dedicated transfer lines
 - Mass production systems
 - Continuous improvement
 - Modular manufacturing
 - Mass customization
-

8.1 Functional Strategy

Purchasing Strategy- deals with obtaining raw materials, parts and supplies needed to perform the operations function

Options include:

- Sole suppliers (Deming)
 - Just-in-time
 - Parallel sourcing
-

8.1 Functional Strategy

Logistics Strategy- deals with the flow of products into and out of the manufacturing process

Trends include:

- Centralization
 - Outsourcing
 - Internet
-

8.1 Functional Strategy

Human Resource Strategy

Trends include:

- Self-managed teams
- 360-degree appraisal
- Diverse workforce

8.1 Functional Strategy

Information Technology Strategy

Trends include:

- Follow the sun management
 - Internet
 - Extranet
 - Intranet
-

8.2 The Sourcing Decision: Location of Functions

Outsourcing- purchasing from someone else a product or service that had been previously provided internally

- Avoid outsourcing distinctive competencies

Offshoring- the outsourcing of an activity or a function to a wholly-owned company or an independent provider in another country

8.2 The Sourcing Decision: Location of Functions

Disadvantages of outsourcing and offshoring

- Customer complaints
 - Long-term contracts
 - Ability to learn new skills and develop new core competencies
 - Lack of cost savings
 - Poor product quality
 - Increased transportation costs
-

8.2 The Sourcing Decision: Location of Functions

Errors in Outsourcing Efforts

- Outsourcing the wrong activities
 - Selecting the wrong vendor
 - Poor contracts
 - Personnel issues
 - Lack of control
 - Hidden costs
 - Lack of an exit strategy
-

8.4 Strategic Choice: Selecting the Best Strategy

Process of Strategic Choice

Strategic choice- the evaluation of alternative strategies and selection of the best alternative

- Consensus
 - Devil's advocate
 - Dialectical inquiry
-

8.4 Strategic Choice: Selecting the Best Strategy

Process of Strategic Choice

Criteria for evaluating alternatives includes:

- Mutual exclusivity
 - Success
 - Completeness
 - Internal Consistency
-

8.5 Developing Policies

Effective Policies Accomplish

1. Forces trade-offs between competing resource demands
 2. Tests the strategic soundness of a particular action
 3. Sets clear boundaries within which employees must operate while granting them freedom to experiment within those constraints
-

CHAPTER 9

strategy implementation: organizing for Action

STRATEGIC MANAGEMENT & BUSINESS POLICY
12TH EDITION

THOMAS L. WHEELLEN J. DAVID HUNGER

9.1 Strategy Implementation

Strategy implementation- the sum total of all activities and choices required for the execution of a strategic plan

- Who are the people to carry out the strategic plan?
 - What must be done to align company operations in the intended direction?
 - How is everyone going to work together to do what is needed?
-

9.1 Strategy Implementation

Common Strategy Implementation Problems

1. Took more time than planned
 2. Unanticipated major problems
 3. Poor coordination
 4. Competing activities and crises created distractions
 5. Employees with insufficient capabilities
 6. Poor subordinate training
 7. Uncontrollable external environmental factors
 8. Poor departmental leadership and direction
 9. Inadequately defined implementation tasks and activities
 10. Inefficient information system to monitor activities
-

9.3 What Must Be Done?

Developing Programs, Budgets and Procedures

Programs make strategies action-oriented

9.3 What Must Be Done?

Developing Programs, Budgets and Procedures

Matrix of Change- provides guidance on where, when and how fast to implement change

Budget- provides the last real check on the feasibility of the strategy

Procedures (organizational routines)- detail the various activities that must be carried out to complete a corporation's programs

CHAPTER 11

evaluation and Control

STRATEGIC MANAGEMENT & BUSINESS POLICY
12TH EDITION

THOMAS L. WHEELLEN J. DAVID HUNGER

11.1 Evaluation and Control in Strategic Management

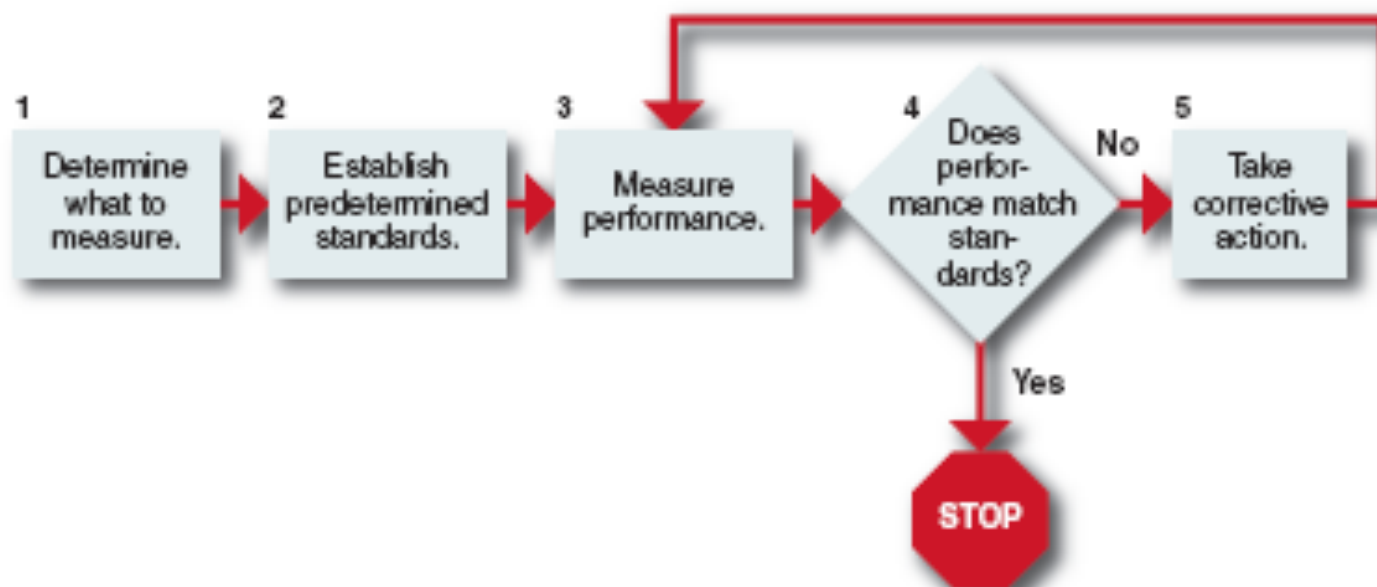
Evaluation and Control ensures that a company is achieving what it set out to accomplish by comparing performance with desired results and taking corrective action as needed

11.1 Evaluation and Control in Strategic Management

1. Determine what to measure
 2. Establish standards of performance
 3. Measure actual performance
 4. Compare actual performance with the standard
 5. Take corrective action
-

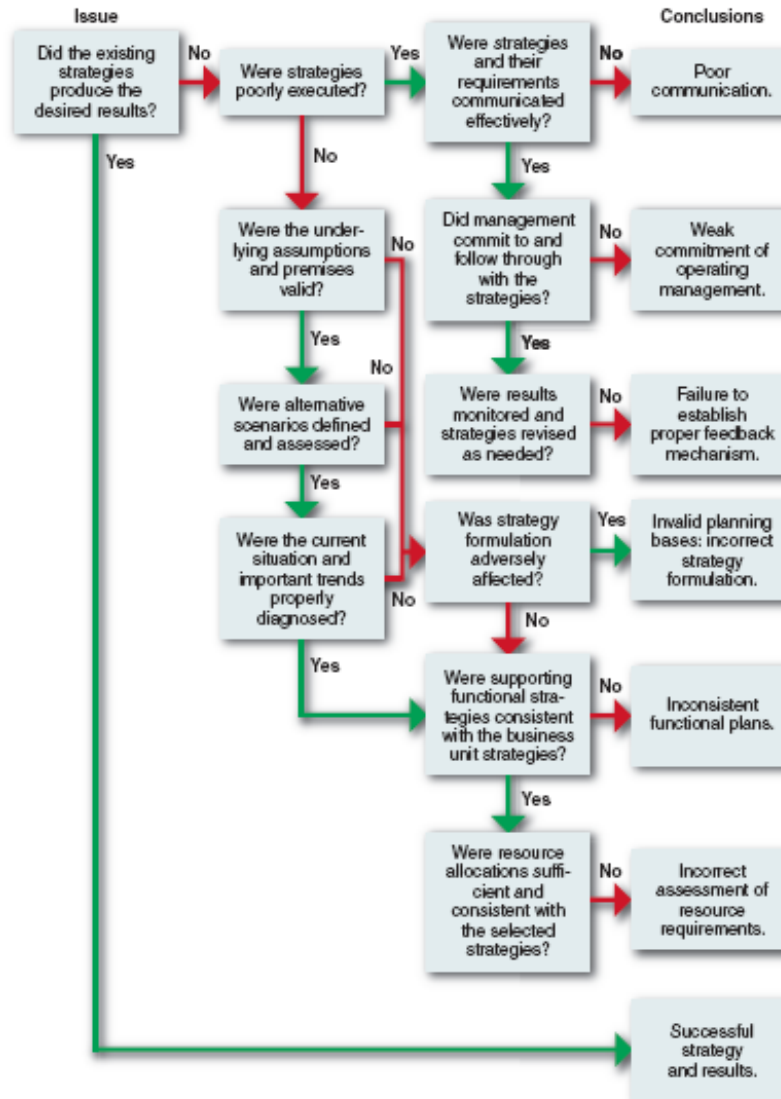
11.1 Evaluation and Control in Strategic Management

FIGURE 11-1
Evaluation and
Control Process



11.1 Evaluation and Control in Strategic Management

FIGURE 11-2
Evaluating an
Implemented
Strategy



11.2 Measuring Performance

Balanced score card– combines financial measures that tell results of actions already taken with operational measures on customer satisfaction, internal processes and the corporation's innovation and improvement activities

- Financial
 - Customer
 - Internal business perspective
 - Innovation and learning
-

11.2 Measuring Performance

Benchmarking- the continual process of measuring products, services and practices against the toughest competitors or those companies recognized as industry leaders